

## OECD work on Global Value Chains and Trade in Value Added

Lunchtalk, 27 June 2013

The speaker presented the work that has been recently carried out on the topic of Global Value Chains (GVCs) and Trade in Value Added. The relevance of the project relies in the use of new data to describe the increasing complexity of value chains and the links to their policy implications.

So far, GVCs have been studied by means of case studies, the most famous being the ones of iPhone and iPod. More recently, the study of GVCs has been tackled at a more aggregate level. One of the main issues that arise when using trade flows data is that of “double counting”, as parts and components are counted several times in different production stages when they cross the borders. The OECD team has been trying to disentangle these trade flows in terms of value added, in order to understand where the value of a product is created. This has been done with the use of data on bilateral trade flows and national Input-Output tables.

A lot of value added embodied in a country's export comes from abroad. Resource-rich countries such as Russia and Norway display a high level of domestic value added embodied in exports, but the rest of the countries are highly heterogeneous. This is partly due to country size, as smaller economies such as Luxembourg have lower chances to source domestically with respect to large countries, and partly to the presence of Multinational Enterprises (MNEs). Looking at the foreign value added embodied in final demand allows to assess how much of the latter has been satisfied by domestic producers and by producers from abroad. The example of Belgium shows that 43% of the country's final demand is made up by value added that has been imported through intermediate and final products. Finally, in almost all countries services represent a high share of both domestic and foreign content of exports. The trade balance deficit or surplus measured in gross terms is not affected, but the analysis in value added terms gives slightly different results. From an economics perspective, this is not very relevant, but it assumes greater importance from a political perspective, especially in the context of trade agreements and negotiations: for instance, the US trade deficit to China drop to one third when measured in value added terms.

The policy side of the debate on GVCs entails discussions on competitiveness, border policies and economic development. When dealing with the issue competitiveness, a tension between the national focus of government policies and the international character and strategies of companies arises. In particular, government efforts to stimulate demand might end up stimulating activities and demand in other countries, raising issues in the current context of tight budget constraints. Another issue at the core of competitiveness is the increasing role of services in manufacturing exports. Moreover, competitiveness in GVCs involves strengthening production factors that are “sticky” and not susceptible to movement across borders. As the efficient functioning and participation of countries in GVCs depends on the smooth circulation of productive resources within GVCs, border policies also play a role. As for economic development, GVCs might have a role in helping developing countries integrating in the global economy.

The discussant made a few remarks on the presentation. The first one concerned the notion of the effective rate of protection, meaning that the new data provide support to the claim that countries should have avoided some self-defeating trade policies. The second remark referred to the recent interest in the notion relatively to the crisis, as the fast rebound of trade after the collapse in 2009 shows that economic forces are against countries putting too much barriers to trade. The third remark concerned the concept of global vs regional value chains. In terms of geographical regions, the discussant highlighted the existence of three main centres of value chains (North America, with the dominance of the US; Europe, with countries such as Germany at the core; East Asia, with Japan and China as complementary centres). In terms of regions created artificially by regional trade agreements, the discussant raised the issue of whether these kinds of agreements are distorting the best allocation of resources in value chains. The fourth remark concerned the notion of leakage of domestic measures to other countries: especially inside the EU, national measures leakage is relevant but it would make sense to assess the costs and benefits of these measures. The last remark referred to the role of services: it is very hard to distinguish between services and manufacturing, but the EU and other economies in their forward-looking view about their positioning in GVC understand that services are crucial.

*Event notes by Francesca Barbiero*